Quarterly Portfolio Review
King County Investment Pool

June 30, 2011

Presented by
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PFM Asset Management LLC

Executive Summary

PFM

Purpose, Scope and Approach

- PFM Asset Management LLC (“PFM”) prepared this report to update our ongoing analysis and to address any Investment Pool developments since PFM’s previous formal review in March 2011.
- Our approach included a detailed portfolio analysis and investment policy compliance review.
- Our analysis was based on the Investment Pool’s holdings as of June 30, 2011, with reference to holdings in past periods.
- The review encompasses all current investments in the County’s Investment Pool.

Investment Program and Portfolio Review

- PFM reviewed the County’s portfolio with respect to Investment Policy Compliance, Sector Allocation, Issuer Concentration, Credit Quality, and Maturity Distribution.
- As with previous reports, the County’s Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality. All holdings are investment grade, rated at least A-1, and pose minimal risk to principal. Aside from tri-party repurchase agreement counterparties, the Pool has no other corporate exposure.

Observations

- The portfolio possesses high credit quality. All securities are either explicitly guaranteed or carry a high level of support by the U.S. Government (U.S. Treasury and federal agency securities), fully collateralized (repurchase agreements), and/or rated at the highest credit category by Standard and Poor’s.
- As in previous quarters, the Pool’s credit exposure remains minimal. It includes the exposure to two large counterparties for the Pool’s tri-party repurchase agreements. Certificates of deposit are no longer included in the portfolio, however the local government investment pool maintains a small allocation to this sector.
- The Pool purchased $809 million par in federal agency securities during the quarter primarily from the proceeds of maturing federal agency and U.S. Treasury securities. In total, the Pool’s federal agency exposure increased by $603 million during the period. Nearly 50% of federal agency purchases were focused in the 9 to 12 month maturity range.
- Potential market risk has decreased slightly over the past quarter as the portfolio’s total weighted average maturity (“WAM”) was shortened by 19 days, from 244 days on March 31st to 225 days on June 30th. This level of market risk is consistent with the objectives of the County’s Pool as well as other investment programs with similar objectives and is in-line with the County’s cash flow expectations. The addition of $589 million of U.S. Treasury and federal agency securities in the 6 to 12 month maturity range helped to pull the quarter-ending overall WAM slightly lower compared to the previous quarter. Conversely, these purchases also contributed to an increase in the weighted average maturity of the short-term portfolio (i.e., all securities maturing within 1 year), which ended the quarter at 122 days compared to 103 days on March 31st.
- The Pool appears to provide adequate liquidity. Approximately 82% of the portfolio is held in securities that mature within the next 12 months. As of June 30th, 20% of the portfolio was invested in overnight securities consisting of the Washington State Local Government Investment Pool, collateralized repurchase agreements, and a municipal security maturing on July 1st. The Pool’s investments – the majority of which are U.S. Treasury and federal agency securities – are actively traded in the market.

Portfolio Review

I. Investment Policy Compliance

II. Sector Allocation

- U.S. Treasuries
- Federal Agencies
- LGIP and Cash Equivalents
- Repurchase Agreements
- Municipal Securities

III. Issuer Concentration

IV. Overall Credit Quality

V. Maturity Distribution

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I. Investment Policy Compliance – Investment Policy Summary

- The Investment Policy summary is based upon the current Investment Policy for the County Investment Pool and does not reflect the proposed policy changes being considered by the Executive Finance Committee.

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Repurchase Agreement	40%	10% per investment dealer; Firm must adopt a master repurchase agreement with the County		60 days or less
Reverse Repurchase Agreement	20% of the total balance of the Investment Pool at any one time	Firm must adopt a master repurchase agreement with the County		180 days or less
Local Government Investment Pool ("LGIP")	Not addressed in policy	State of Washington LGIP		N/A
U.S. Treasuries	100%	None		Up to 5 years
U.S. Agencies	75%	None		Up to 5 years
Bankers' Acceptances	40%	10%	Any BA purchase must be issued by any of the top 50 world banks in terms of assets as listed by American Banker or by approved domestic banks	Up to 180 days
Certificates of Deposit	20%	7.5% Must be a public depository in the State of Washington		Up to 5 years
Commercial Paper	25%	5% per name per Portfolio	Must carry highest ratings of any two nationally recognized rating agencies at time of purchase	180 days
Municipal Bonds	20%	5%	At time of purchase, bond must have one of the three highest credit ratings of a nationally recognized credit rating agency	5 years
Mortgage-Backed	25%	Must be issued by Federal Agencies of the United States	Must pass the Federal Financial Institutions Examination Council ("FFIEC") suitability test, which banks use to determine lowest risk securities. If rated by Fitch, must have rating between V1 and V5	5 year average life at time of purchase
Bank Notes	20%	5%	Bonds must be rated "A" or better by two nationally recognized rating agencies or guaranteed by an agency of the federal government	5 years

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I. Investment Policy Compliance – County Investment Pool

Topic	Observations
Sector Allocation	• All sector allocations fall within the limits set forth by the County's Investment Policy Statement. The Pool continues to diversify its holdings across a variety of fixed income asset classes, including a large majority of securities which are either explicitly guaranteed or carry a high level of support by the U.S. government. The County increased its allocation to the federal agency sector, from 33% on March 31st to 43% on June 30th. In doing so, the County reduced its holdings in U.S. Treasury securities by approximately 12%, from 46% on March 31st to 34% on June 30th.
Credit Quality	• All credit ratings fall within the limits set forth by the County's Investment Policy Statement. The Pool's holdings are of the highest quality. A majority of securities are guaranteed or supported by the U.S. government, while the remaining securities, or their issuing entities, hold credit ratings that are rated A-1 by Standard & Poor's, or are invested in a money market pool (Washington State LGIP) that invests in non-corporate issuers and certificates of deposit.
Maturity Distribution	• All maturities fall within the limits set forth by the County's Investment Policy Statement. The County's holdings are concentrated between overnight and one-year securities, with a small amount of assets invested beyond one year (18%).

Security Type	Market Value($)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
Cash Equivalents	0	0.00%	✓	N/A	✓
Commercial Paper	0	0.00%	✓	N/A	✓
Repurchase Agreements	301,000,000	6.19%	✓	12 days	✓
LGIP	793,798,071	16.33%	✓	1 day	✓
Federal Agencies	2,090,077,000	42.99%	✓	2.7 years	✓
Agency Mortgages	26,738,516	0.55%	✓	4.8 years (WAL)	✓
Certificates of Deposit	0	0.00%	✓	N/A	✓
Municipal Bonds	15,000,000	0.31%	✓	1 day	✓
U.S. Treasury	1,635,000,000	33.6%	✓	3.3 years	✓

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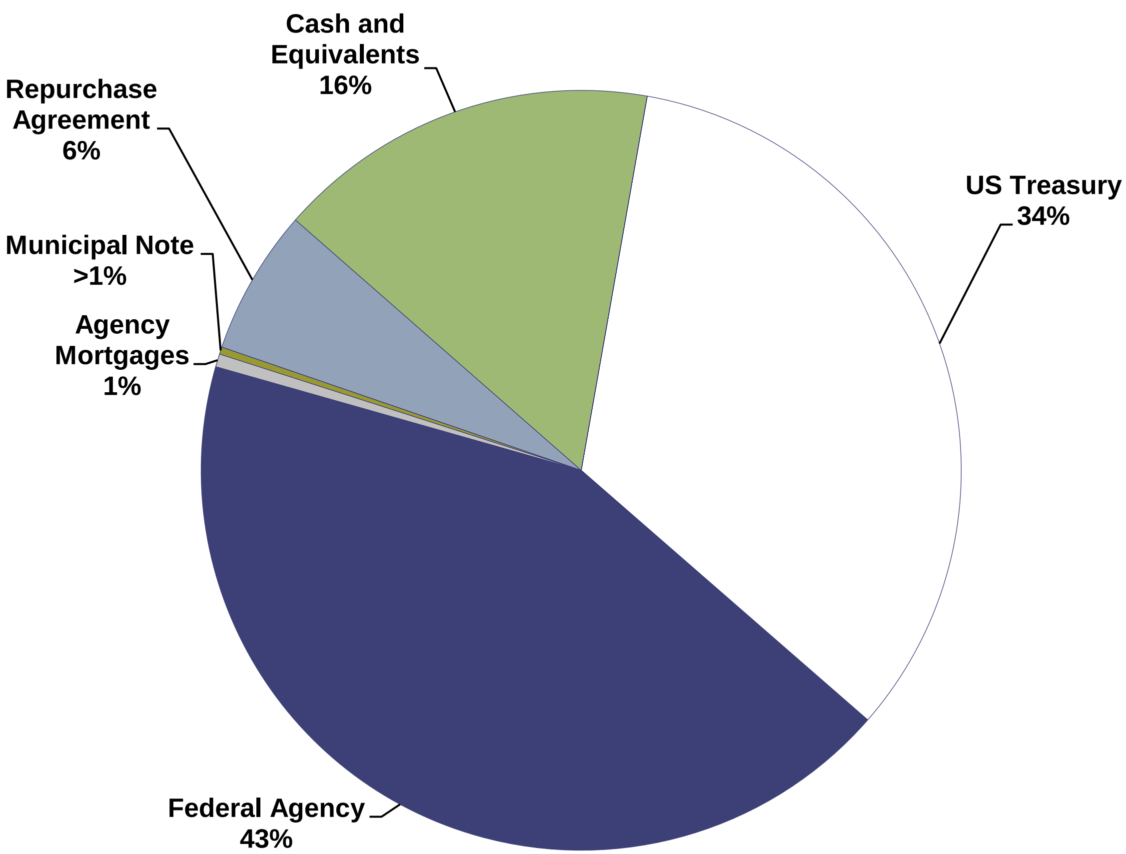
II. Sector Allocation

Sector Diversification
as of June 30, 2011



Percentages may not total to 100% due to rounding.

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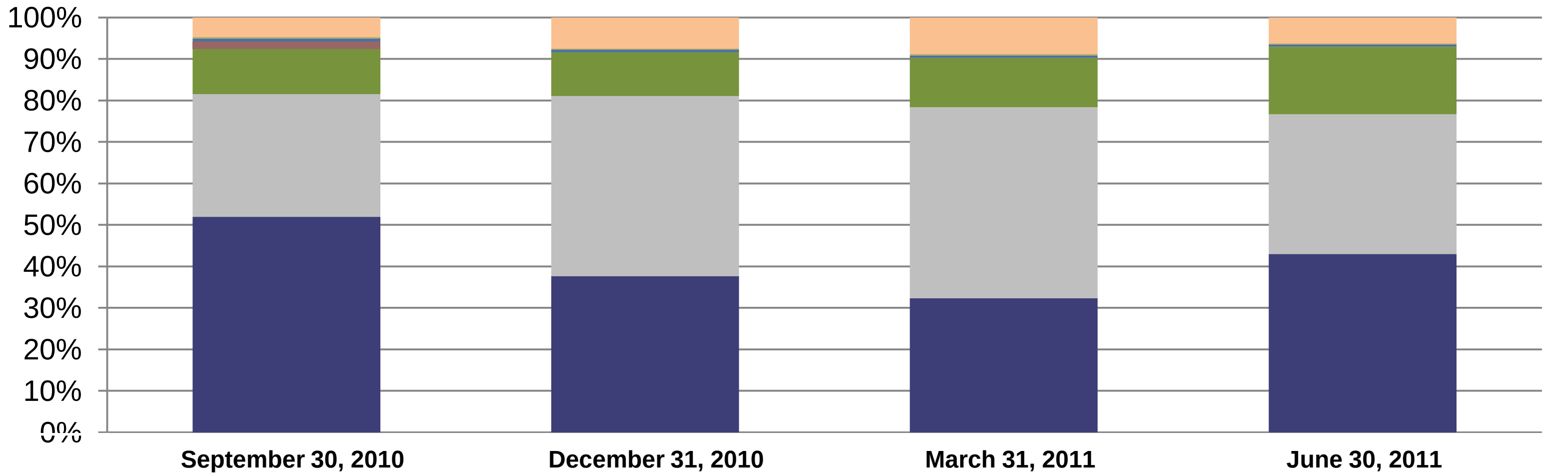
II. Changes in Portfolio Sector Allocation Over Past 12 Months

Changes in Sector Allocation

- Notable for the second quarter is an increase in the allocation to federal agency securities and a corresponding decrease in U.S. Treasury securities. With the recent and continued decline in market yields, especially among securities maturing within two years, this change in allocation may add value without adding undue risk given the likelihood for low rates and takes advantage of recent spread widening in certain parts of the yield curve.
- By quarter end, the County had allocated approximately 16% of the Pool's assets to the Washington State LGIP (the "LGIP"). This marks the greatest allocation to the Washington State LGIP since PFM began reporting on the Pool's holdings in early 2008. The LGIP offers an attractive interest rate relative to repurchase agreements and short-term individual investments while also providing liquidity to the portfolio.
- On July 1, 2011, the County's Phoenix AZ municipal bond will mature, reducing the portfolio's municipal allocation from 0.31% to 0.00%.

Sector Allocation September 2010 – June 2011



	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011
Federal Agencies	51.95%	37.69%	32.32%	42.99%
U.S. Treasury	29.56%	43.34%	46.07%	33.63%
Washington State LGIP	10.99%	10.50%	11.83%	16.33%
Cash and Equivalents	0.00%	0.00%	0.00%	0.00%
Certificates of Deposit	1.67%	0.00%	0.00%	0.00%
Agency Mortgages	0.81%	0.69%	0.64%	0.55%
Municipal Notes	0.33%	0.32%	0.33%	0.31%
Repurchase Agreements	4.68%	7.45%	8.82%	6.19%

**Percentages may not total to 100% due to rounding.*

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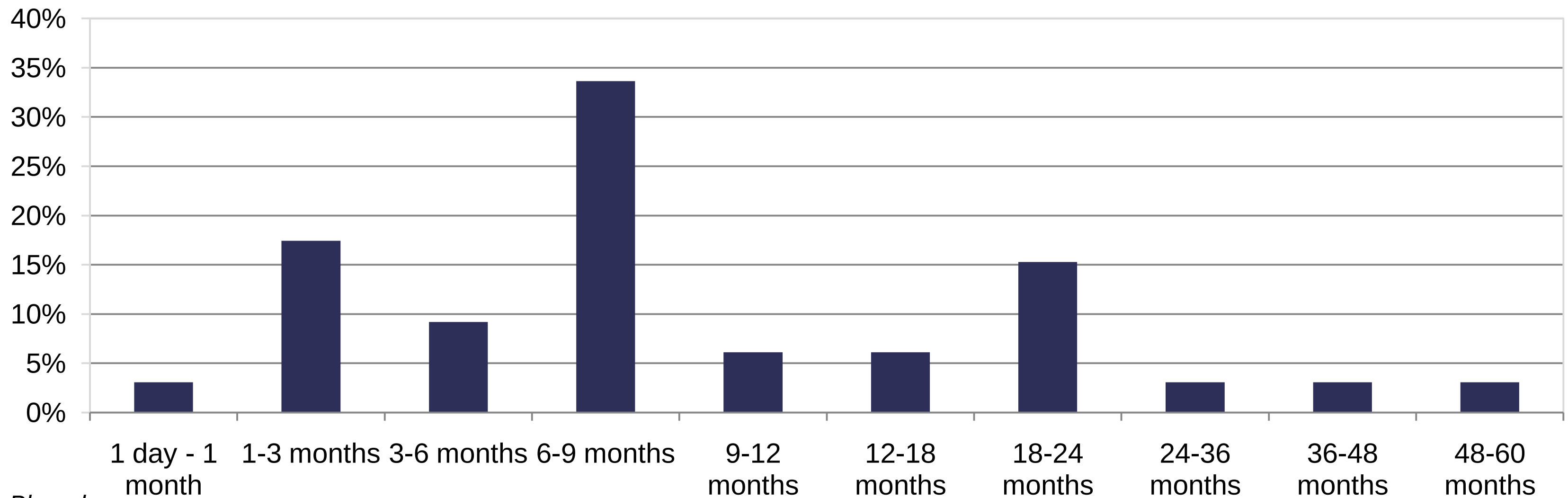
II. Sector Allocation – U.S. Treasury Securities

Topic	Observations
Observations	• The County's U.S. Treasury securities are allocated mostly among maturities between 0 to 24 months, with approximately 94% of securities set to mature during this time period. The Pool's longest U.S. Treasury holding is a $50 million par note that is scheduled to mature on October 31, 2014. This holding makes up approximately 3.06% of U.S. Treasury holdings in the Pool and slightly more than 1% of the overall pool, which helps to limit the portfolio's exposure to an increase in interest rates. • The County decreased its overall allocation to U.S. Treasuries to 33%, compared to 46% at the end of the previous period. • During the quarter, $631 million in U.S. Treasury securities matured, and $100 million was reinvested in Treasury securities maturing in the 6 to 12 month range. The remaining maturities were redeployed to other sectors, primarily the federal agency sector, where a slight yield spread added value for the portfolio. • The average maturity of the County's U.S. Treasury holdings is 302 days, which is a slight increase (13 days) compared to March 31st. The quarterly change is attributable to reinvesting a large portion of maturing Treasuries in short-term federal agency investments instead of short-term Treasuries. • Renewed concerns regarding the sovereign debt of several European countries and fears of a slowing U.S. economy increased investor demand for U.S. Treasuries. The increased demand may have significantly benefited the County in market value gains depending on when Treasury securities were purchased, as short-term and intermediate-term yields reached or approached historic lows.

U.S. Treasury Maturity Distribution
as of June 30, 2011



*Source data: Bloomberg

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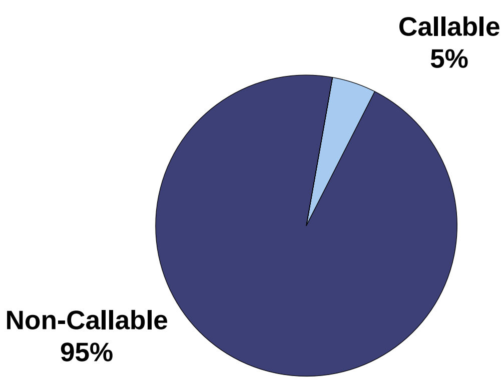
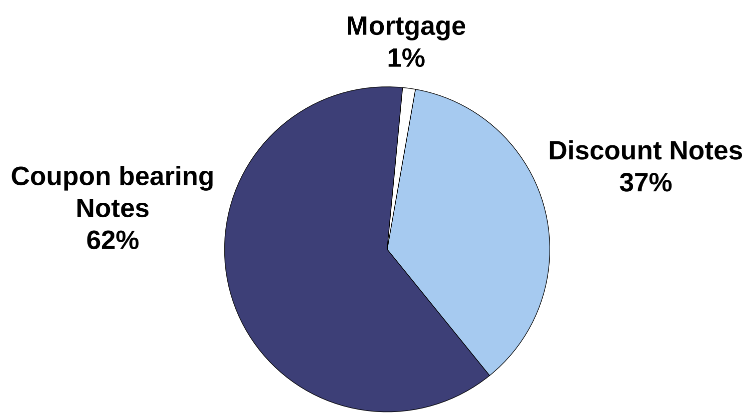
II. Sector Allocation – Federal Agencies

Topic	Observations
Structure	• Non-Callable 95% • Callable 5% • Discount Notes 37% • Coupon bearing Notes 62% • Agency Mortgage 1%
Diversification	• Freddie Mac (FHLMC) 24% • Federal Home Loan Bank (FHLB) 18% • Fannie Mae (FNMA) 40% • Federal Farm Credit Bank (FFCB) 17% • Freddie Mac Mortgage-Backed (FHR) <1% • Fannie Mae Mortgage-Backed (FNR) <1%
Conclusions	• The County's federal agency allocation is diversified among the four major issuers. Approximately $225 million of federal agency securities matured during the quarter. The County added $603 million to the allocation to this sector compared to March 31st. By the end of the quarter, the County had added approximately $809 million in federal agency holdings to the portfolio. • Federal Agency purchases were concentrated in the 0 to 1 year timeframe, with just over 48% of purchases targeted in the 9 to 12 month timeframe. • The County's allocation to callable federal agency securities decreased by 3.53%, from 8.2% on March 31st to 4.72% as of June 30th. The decrease is attributable to a one-time callable security not being called as well as the portfolio's overall agency allocation increase.

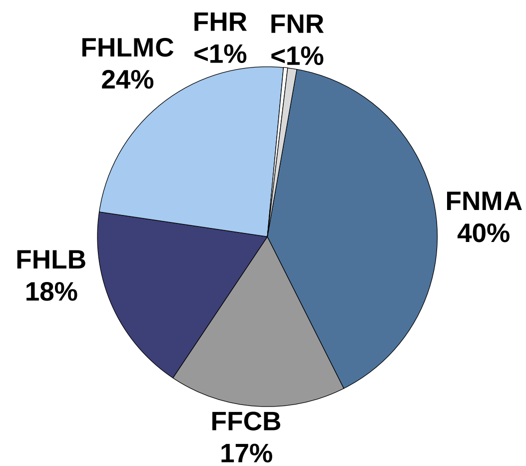
Callable vs. Non-Callable as June 30, 2011



Structure Distribution June 30, 2011



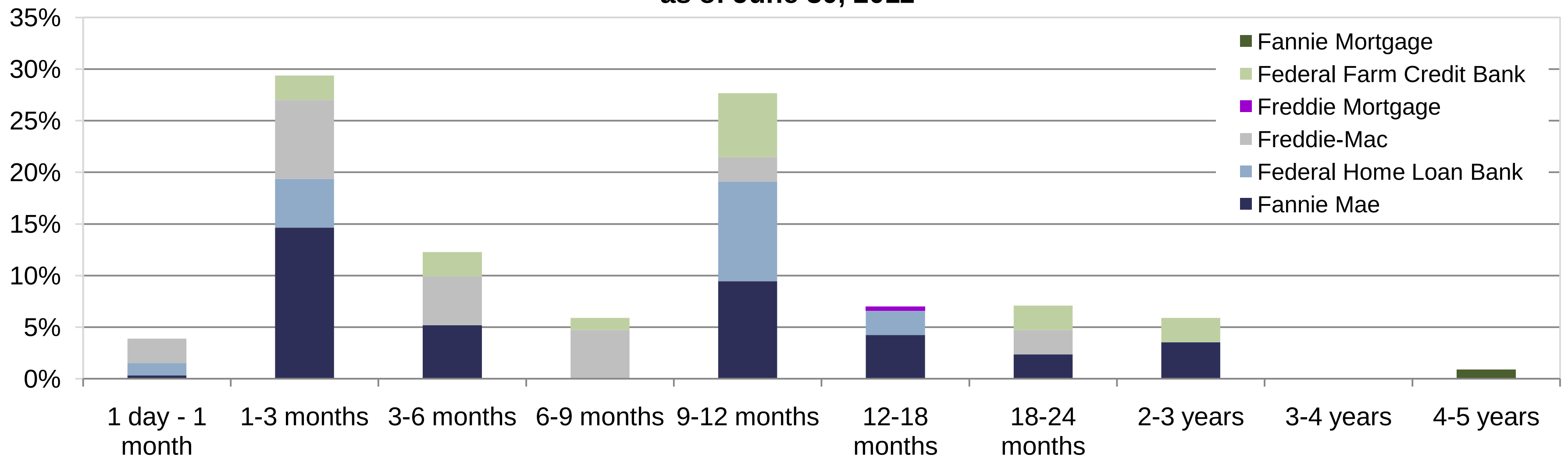
Issuer Diversification as of June 30, 2011



** All calculations above are based on total Agency exposure, not overall Portfolio*

Topic	Observations
Maturity Distribution	• The County's federal agency maturity distribution falls within the limits set forth by its Investment Policy Statement. No agency security holds a final maturity greater than five years. • A majority of holdings are in securities with maturities of one year or less (79%), with the majority of these securities allocated between 1 to 3 months (29%) and 9 to 12 months (28%). • The steep yield curve continues to provide higher yields for investors who are willing to invest in securities that mature in 18 months or more. Some economists believe that when yields eventually rise, they will rise sharply, and a sharp rise in yields could negatively affect market values. The County is well positioned for this possibility with only a small amount of assets invested in longer term agency securities. • Intermediate-term investments that were purchased in previous quarters have moved closer to their maturity dates. Given the steep yield curve, there is a possibility that some of these investments could be sold to lock-in unrealized gains, which could add value to the portfolio.

Federal Agency Maturity Distribution by Name
as of June 30, 2011



- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- All other Agency maturities are calculated as days to maturity

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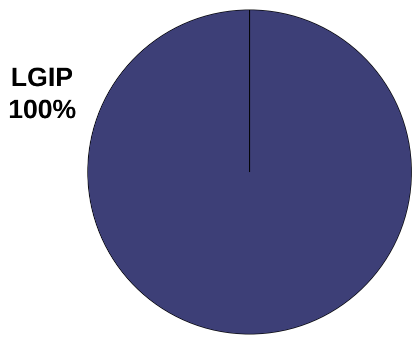
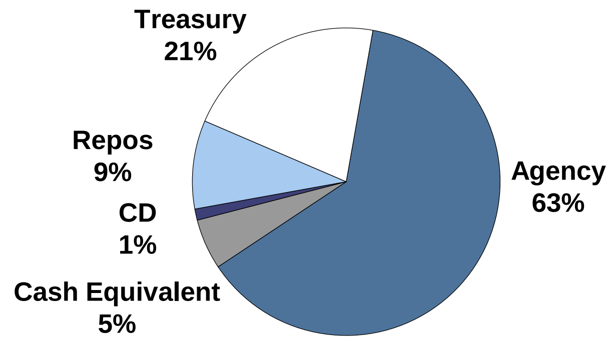
II. Sector Allocation – LGIPs and Cash Equivalents

	Underlying Investments	Rating	Observations
Washington State LGIP	• Federal Agencies 62.88% • U.S. Treasuries 21.32% • Cash Equivalents 5.31% • Certificates of Deposit 1.18% • Repurchase Agreements 9.30% *As of June 30, 2011*	• N/A	• The County increased the portfolio's allocation to the Washington State LGIP (the "LGIP") to 16% ($793 million) of total portfolio assets, representing a $250 million increase compared to its March 31st allocation of $543 million. According to the County's June LGIP statement, the LGIP's net earnings rate for the month was 0.16%, which remains an attractive yield relative to overnight and term repo agreements available in the current market. • Since last quarter, the Washington State LGIP increased its allocation to federal agency securities, primarily by increasing its agency discount note holdings. Agency discount notes increased from 28% on March 31st to 44% as of June 30th. Additionally, the LGIP also increased its U.S Treasury holdings by 4%, and reduced its allocation to repurchase agreements and bank deposits by 9% and 6%, respectively – reducing the LGIPs overall credit exposure.

Issuer Distribution as of June 30, 2011



Washington State LGIP Sector Distribution as of June 30, 2011



** All calculations above are based on total cash equivalents exposure, not overall Portfolio*

***Percentages may not total to 100% due to rounding.*

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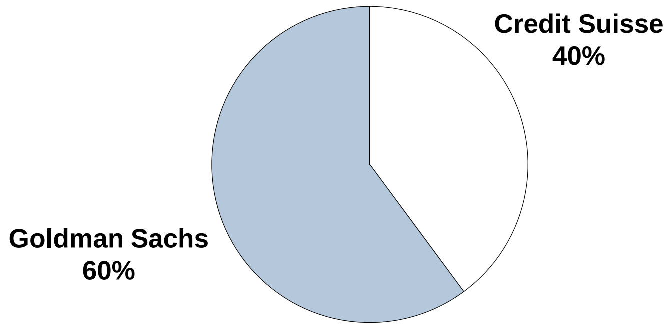
II. Sector Allocation – Repurchase Agreements

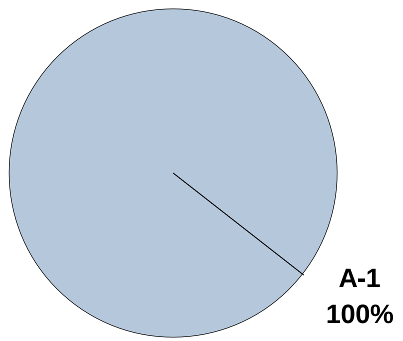
	Observations
Issuer Diversification	• The Pool holds five repurchase agreements through two counterparties – Credit Suisse and Goldman Sachs. • Repurchase agreements comprise 6.19% of the aggregate portfolio with a par value of $301 million. This represents a decrease of $104 million compared to the previous quarter's allocation of $405 million. As mentioned previously, the Pool has increased its allocation to the Washington State LGIP, which can also be utilized for liquidity purposes. • The County's repurchase agreements through Credit Suisse are considered "term" repo agreements, since their maturities are longer than one day. As of quarter-end, these securities had 11 and 12 days remaining until maturity. Both holdings fall within the County's Investment Policy limit of 10% per issuer and 40% for the entire sector.
Credit Distribution	• Ratings and Outlooks of the three major ratings agencies are as follows:
Conclusion	• Although the rates on overnight and term repurchase agreements continue to remain at or near their historical lows, repurchase agreements are an appropriate investment vehicle for the liquidity portion of the portfolio. • The Washington State LGIP currently offers an attractive yield relative to repurchase agreements and also provides the portfolio with liquidity; the Pool's actions with regards to the allocation between these two sectors shows an appropriate level of sensitivity to market conditions.

Credit Suisse	Short-Term Rating	Outlook	**Goldman Sachs**	Short-Term Rating	Outlook
Standard & Poor's	A-1	Stable	Standard & Poor's	A-1	Negative
Moody's	P-1	Negative	Moody's	P-1	Negative
Fitch	F1+	Stable	Fitch	F1+	Stable

Issuer Distribution
as of June 30, 2011



Credit Distribution
as of June 30, 2011

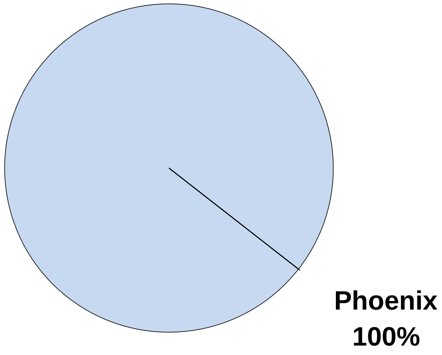


** All calculations above are based on total repo exposure, not overall Portfolio*

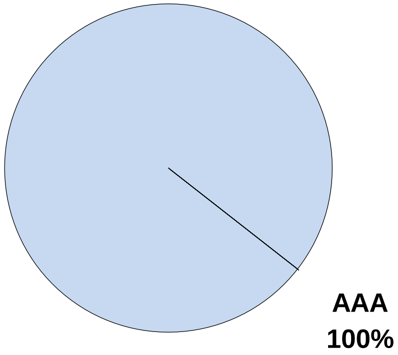
II. Sector Allocation – Municipal Bonds

	Observations
Issuer Diversification	• The County's one municipal security, a City of Phoenix General Obligation bond was scheduled to mature on July 1, 2011. • There have been no changes in the credit rating of the municipal obligation. It is rated AAA by Standard & Poor's and Aa1 by Moody's. The outlook on the issuer is stable. • As of June 30^{th}, the County Pool's current allocation to municipal securities is minimal. The City of Phoenix obligation had a value of $15 million, which makes up 0.3% of the total County portfolio.
Credit Distribution	• As with previous quarters, we see no adverse credit issues with the Phoenix, AZ Bonds. This issue continues to carry a AAA/Aa1 long term credit rating from Standard and Poor's and Moody's, respectively.
Conclusion	• The Phoenix, AZ bonds have minimal credit risk. • The security remains eligible as a permitted investment for tax exempt money market funds as its remaining maturity is within 397 days. • With the July 1, 2011 maturity of the City of Phoenix issue, the County Pool will have no exposure to municipal securities.

Issuer Distribution as June 30, 2011



Credit Distribution as of June 30, 2011



** All calculations above are based on total muni exposure, not overall Portfolio*

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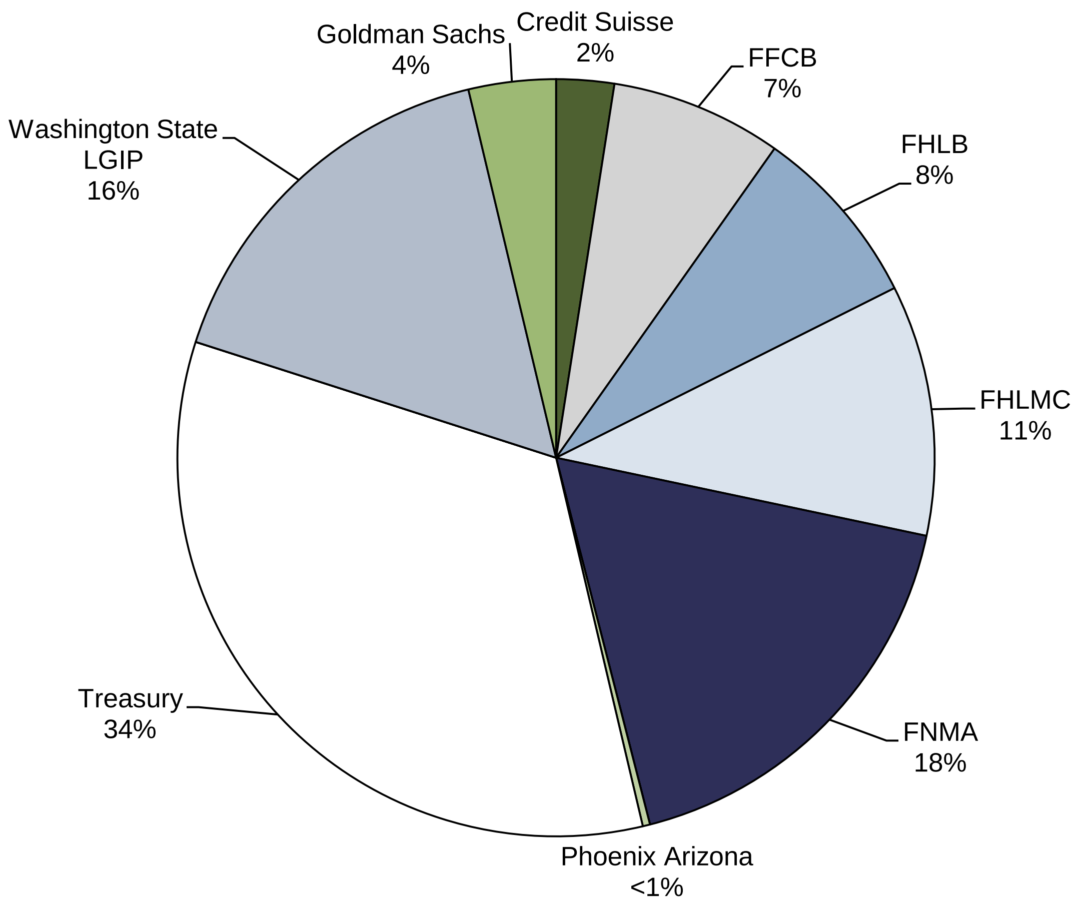
III. Issuer Concentration

Issuer Exposure

- The County continues to maintain a diversified portfolio of issuers. As shown in the chart below, the County has allocated holdings among nine individual issuers.
- A majority of holdings are allocated among U.S. government guaranteed securities and debt of government instrumentalities. These issuers, which include the U.S. Treasury and four federal agencies, comprise 77% of the entire portfolio. Remaining holdings are allocated to a municipal security maturing on July 1, 2011, two repurchase agreement counterparties, and the Washington State LGIP.
- The weighted average maturity of corporate- related holdings (overnight and term repurchase agreements) ended the quarter at 5 days.



**Percentages may not add to 100.0% due to rounding.*

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IV. Overall Credit Quality

County Investment Pool Credit Analysis

- As in past quarters, the portfolio's overall average credit rating continues to remain strong and the portfolio maintains adequate liquidity. The Portfolio is invested in Repurchase Agreements, U.S. Treasury, Federal Agency, Washington State's LGIP, and a Municipal Obligation.

- The County has allocated a large majority of the portfolio to AAA and A-1+ rated federal agency securities and "full faith and credit" U.S. Treasuries. Approximately 77% of the portfolio is allocated to Treasury and Federal Agency securities.

    - The portfolio's exposure to municipal obligations is minimal, representing less than 1% of portfolio assets, and the AAA rated City of Phoenix General Obligation Bond is scheduled to mature on July 1st.

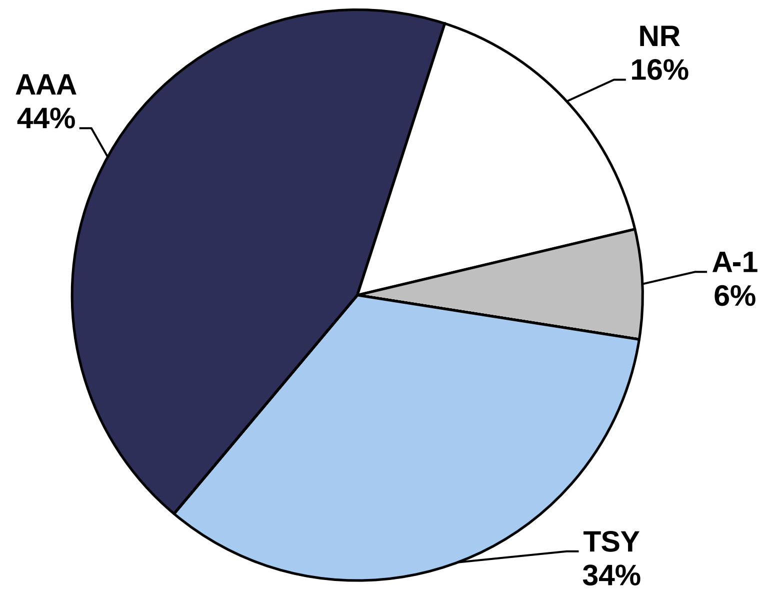
- A small portion of the portfolio, 6%, is allocated to assets rated A-1. The A-1 rated holdings represent the short-term credit ratings of the County's two tri-party repurchase agreement counterparties, Goldman Sachs and Credit Suisse. As of June 30th, these holdings carried an ultra-short maturity between 1 and 12 days.

- The remainder of the portfolio is invested in the Washington State LGIP, which is currently unrated. The LGIP portfolio maintains a very high credit profile with over 84% invested in Treasury and agency securities.

- PFM continues to have no concerns regarding the credit profile of the County's Pool.

*Ratings by S&P

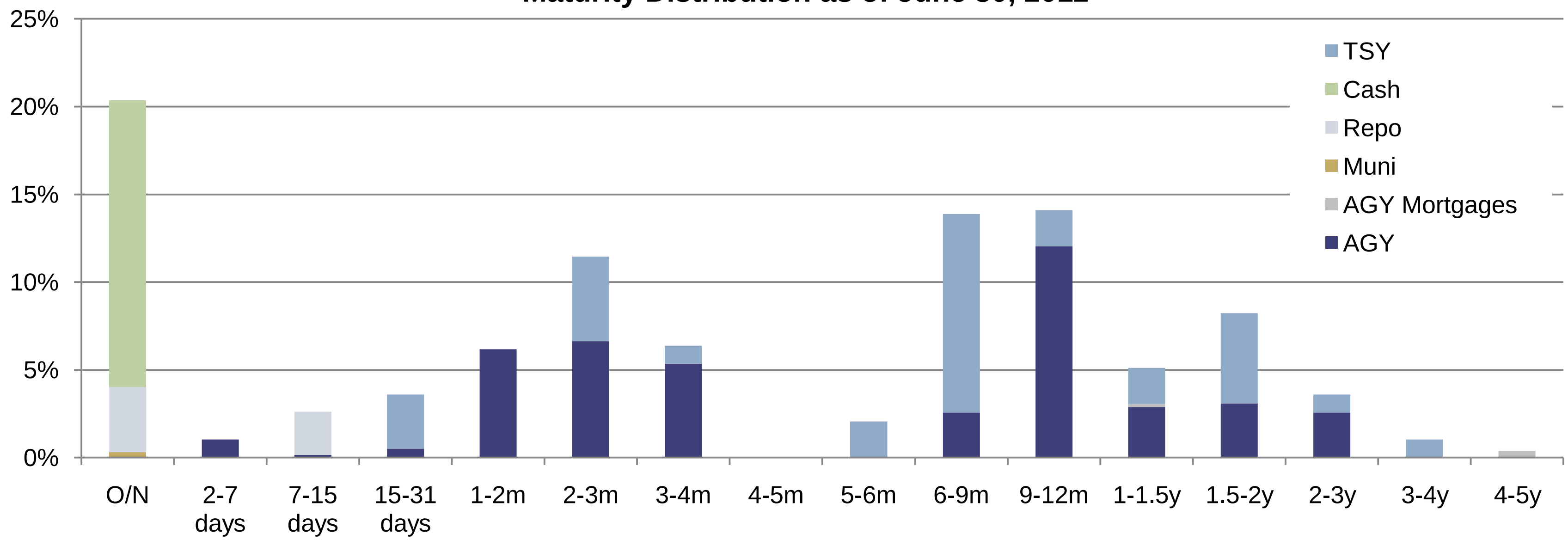
Credit Distribution*
as of June 30, 2011



V. Maturity Distribution

Maturity Distribution	Observations
Weighted Average Maturity ("WAM")	• The Portfolio remains diversified between several maturity ranges, particularly pertaining to Treasury and federal agency securities. • The entire pool's weighted average maturity ended the quarter at 225 days, nearly three weeks shorter versus last quarter, when the Pool's WAM ended March 31st at 244 days. During the quarter, the County focused Treasury purchases in the 6 to 12 month maturity range and Agency purchases in the 9 to 12 month range. Adding short-term U.S Treasury and federal agency securities contributed to reducing the Pool's overall WAM. • However, these purchases also contributed to extending the short-term weighted average maturity of the portfolio (which includes securities with maturities of less than one year) by 18 days to end the quarter at 121 days compared to 103 days on March 31st.
Liquidity	• The County continues to maintain adequate liquidity with nearly 20% of aggregate holdings in overnight securities and 28% in securities with maturities of less than one month. The County has allocated approximately 16% of the overall portfolio to the Washington State LGIP. Although, the Washington State LGIP ended the quarter with a WAM of 57 days, its daily liquidity permits it to be considered an overnight investment.

Maturity Distribution as of June 30, 2011



- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets;
- All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

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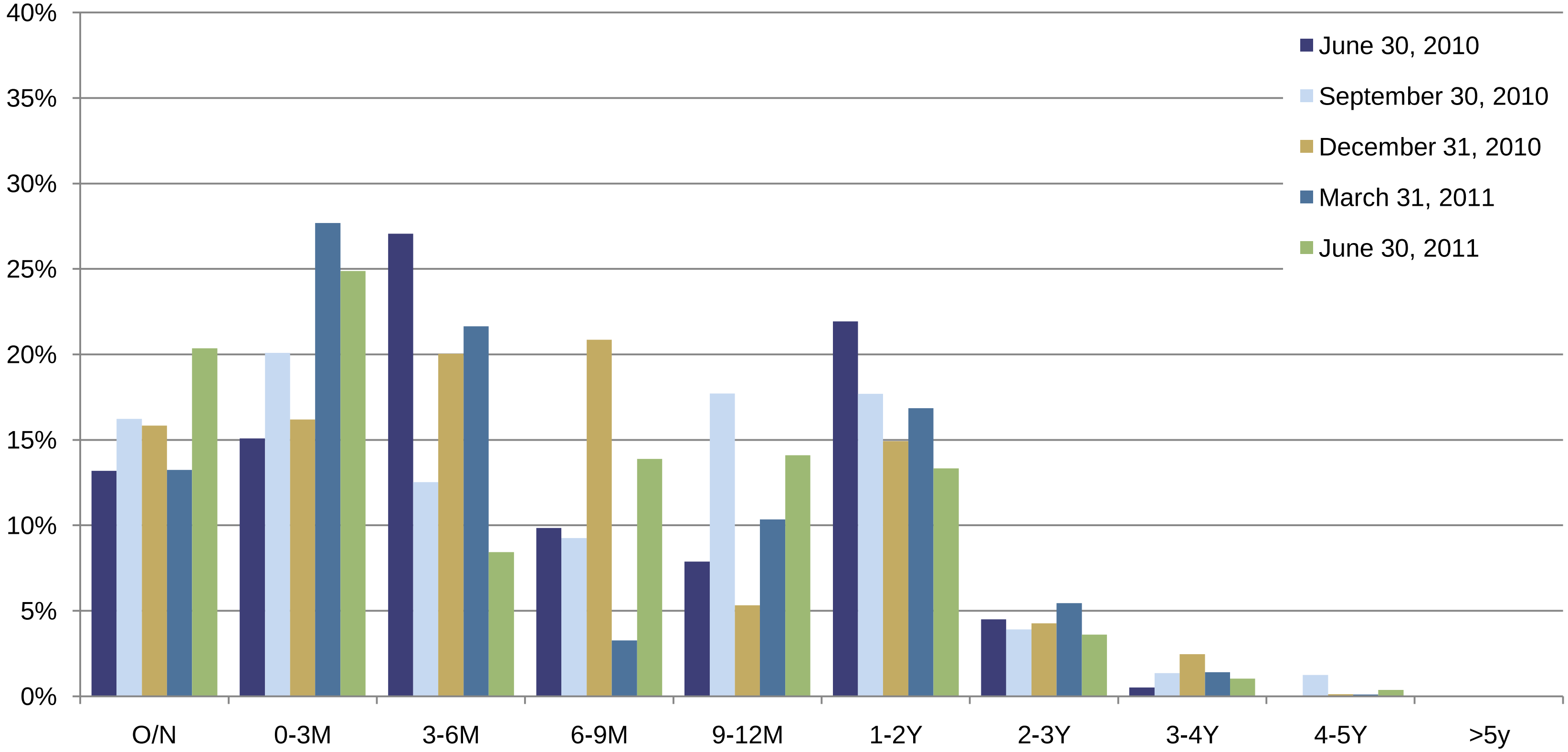
V. Changes in Portfolio Maturity Distribution

Changes in Portfolio Maturity Distribution

- The Pool's maturity structure continues to display a high level of liquidity.
- The Portfolio's overnight allocation increased by 7.1% to 20.4% on June 30th up from 13.3% on March 31, 2011 – representing the portfolio's highest overnight allocation since March 31, 2010. Although the Portfolio's overnight allocation increased by 7.1% during the quarter, the Portfolio's allocation to securities maturing within 1 month decreased by roughly 6.8% to 27.6% compared to the previous quarter end allocation of 34.4%.
- 82% of total holdings remain in securities with maturities under one year. During the past two years, this percentage has remained range-bound, fluctuating between 73 to 79%.
- Notable changes in maturity buckets since March 31, 2011, include a 13% decrease in the 3-6 month maturity range and a 11% increase in the 6-9 month maturity bucket.
- Over time the portfolio has reduced its allocation to securities with maturities longer than 1 year, which has added a degree of insulation against market risk if rates rise from their historic low levels.

Maturity Distribution June 30, 2010 to June 30, 2011



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